

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of this 2nd day of September 1999 by and between CareFirst, Inc. and its Affiliated Companies (the "Company") and John A. Picciotto ("Executive").

WHEREAS, the Company desires to employ the Executive and to enter into an agreement embodying the terms of such employment (the "Agreement"), and the Executive desires such employment and to enter into such an Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual promises of the parties set forth herein, the Company and Executive agree as follows:

1. **Employment.** Subject to the terms and conditions set forth herein, the Company agrees to continue to employ the Executive in the capacity of Executive Vice President, General Counsel & Corporate Secretary of the Company and to cause each of CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc. ("Affiliated Companies") to employ the Executive as its Executive Vice President, General Counsel & Corporate Secretary, and the Executive agrees to be so employed. Executive will assume executive responsibilities for additional subsidiaries of the Company as determined by the Board of Directors and/or the President and Chief Executive Officer of CareFirst, Inc.

2. **Term.**

a. The term of the Executive's employment under this Agreement will commence as of May 1, 1999 (the "Commencement Date") and will terminate on the third (3rd) anniversary of the Commencement Date, except as hereinafter provided.

b. On such third (3rd) anniversary and each succeeding anniversary of the Commencement Date, the term of this Agreement will automatically be extended for an additional one-year period unless, (i) not later than six (6) months prior to any such anniversary, either party to this Agreement will have given written notice to the other that the term of this Agreement will not be extended or further extended, as the case may be, or (ii) the parties agree to extend or further extend, as the case may be, the term of this Agreement for a period of greater than one year. Such extended or further extended term will then constitute the term of the Executive's employment under this Agreement.

c. If at the time of a Change of Control, the remaining term of this Agreement is less than twenty-four months, such term shall be automatically extended to twenty-four months from the date of such Change of Control, unless otherwise agreed by both parties, subject thereafter to renewal pursuant to Section 2(b).

d. The term of the Executive's employment hereunder is subject to termination as provided in Section 7 of this Agreement.

3. Duties.

a. In his capacity as Executive Vice President, General Counsel & Corporate Secretary of the Company, the Executive will have the duties, responsibilities and authority normally associated with the office and position of Executive Vice President, General Counsel & Corporate Secretary. The Executive will report to, and be subject to the sole direction of, the President and Chief Executive Officer of CareFirst, Inc..

b. The Executive will diligently and conscientiously devote his best efforts and such business time as is reasonably necessary in discharging his duties under this Agreement. Notwithstanding the foregoing, the Executive with the prior approval of the President and Chief Executive Officer, may serve as a director on other corporate boards, provided that none of such activities materially interferes with the performance of his duties under this Agreement or creates a conflict of interest or appearance of a conflict of interest with the performance of his duties under this Agreement.

4. Compensation and Benefits.

a. **Base Salary.** During the term of his employment under this Agreement, the Company will pay the Executive a base salary (the "Base Salary") at an annual rate of \$254,800. The Executive's Base Salary will be payable in substantially equal bi-weekly installments (there being twenty-six (26) such installments in the period of one (1) year) or otherwise in accordance with the Company's regular payroll practices applicable to senior executives of the Company. On or before each anniversary of the Commencement Date, such Base Salary will be reviewed by the President and Chief Executive Officer who may (but need not) increase such Base Salary in his sole discretion. In conducting such annual review, the Company will take into account marketplace changes in the compensation of executive officers at comparable companies, an evaluation of the performance of the Executive and other pertinent factors. Such Base Salary, as it may from time to time be increased pursuant to this Section 4(a), will then constitute the Base Salary for purposes of this Agreement.

b. Incentive Compensation.

(i) During the term of his employment under this Agreement, the Executive will participate in the annual incentive plan maintained by the Company for its senior executives. The Executive's target award under such plan will be 35% of Base Salary or such higher percentage as determined by the Board from time to time. The Executive's actual award under such plan will vary from zero percent (0%) to one hundred twenty percent (120%) (or such higher percentage as determined by the Company from time to time) of such target award, subject to the performance criteria and goals established by the Company from time to time. In establishing such performance criteria and goals, the Company will

take into account the Company's historical and expected financial performance, the Executive's responsibilities, competitive practice and other pertinent factors.

(ii) During the term of his employment, the Executive will participate in the Company's long-term incentive plan. For the 1997-1999 performance period, the Executive will receive an award under such plan of 600 units. For the 1998-2000 performance period, the Executive will receive an award under such plan of 1,250 units and for the 1999-2001 performance period, the Executive will receive an award under such plan of 1,300 units. Thereafter, the number of units awarded to the Executive for additional performance periods shall be determined on an annual basis by the Company as approved by the Board. The value of all units shall be determined in accordance with the terms of the Company's Long Term Incentive Plan.

c. **Employee Benefit Plans.** During the term of his employment under this Agreement, the Executive will be entitled to participate, on the same basis as the Company's other senior executive officers, in any and all employee benefit plans and programs (including but not limited to those providing medical, vision, executive physicals, prescription, dental, disability, employee and group life, accidental death and travel accident, and retirement and supplemental retirement benefits) established by the Company for its senior executives or employees generally.

d. **Paid Time Off.** During the term of his employment under this Agreement, the Executive will accrue 239.98 hours (6.4 weeks) of paid time off annually, on a calendar year basis, to be taken at such time or times agreed upon between the Executive and the President and Chief Executive Officer. Accrual of paid time off shall be in accordance with the Company's policy applicable to senior executives. The Executive will be entitled to "carry over" a maximum of three (3) weeks of accrued and unused paid time off from calendar year to calendar year. It is expected that the majority of paid time off shall be used in the year it is accrued. The Executive will be paid a pro-rata portion of his Base Salary for each week of accrued and unused paid time off upon termination of his employment for whatever reason.

e. **Personal Benefits.** During the term of his employment under this Agreement, the Executive will be entitled, on the same basis as the Company's other senior executive officers, to all fringe benefits established by the Company for its senior executives generally. Without limiting the foregoing, the Executive shall be entitled to the following additional benefits:

(i) The Company will provide the Executive with a monthly allowance of six hundred fifty dollars (\$650.00), to be adjusted annually to reflect reasonable market increases, to be used by the Executive to acquire and/or lease an automobile. The benefit under this Section 4(e)(i) is in

addition to mileage reimbursement under Company policy.

(ii) The Company will pay or reimburse the Executive for his costs of membership in professional and/or business associations, societies and luncheon clubs of which Executive is a member, including the membership dues, associated business expenses, and assessments of Executive as long as they are business related and in the best interests of the Company, with such pay and reimbursement subject to the approval of the President and Chief Executive Officer.

(iii) On the Commencement Date and each anniversary date, the Company will pay to the Executive five thousand dollars (\$5,000.00) for personal legal, accounting and financial advice.

(iv) The Company will pay to the Executive an additional amount such that after payment by the Executive of all applicable local, state and federal income and payroll taxes imposed on him with respect to any of the aforesaid Personal Benefits that the Executive retains an amount equal to all applicable local, state and federal income and payroll taxes imposed upon him with respect to any of the aforesaid Personal Benefits

f. Indemnification.

(i) The Company shall indemnify and hold Executive harmless, to the maximum extent permitted by law, against judgments, fines, amount paid in settlement and reasonable expenses, including attorneys' fees incurred by Executive, in connection with the defense of, or as a result of any action or proceeding (or any appeal from any action or proceeding) in which Executive is made or is threatened to be made a party by reason of the fact that Executive is or was an officer of the Company.

(ii) The Company further represents and warrants:

(a) that Executive is and shall continue to be covered and insured up to the maximum limits provided by all insurance which the Company maintains to indemnify its directors and officers (and to indemnify the corporation for any obligations which it occurs as a result of its undertaking to indemnify its officers and directors); and

(b) that the Company will maintain such insurance, in not less than its present limits.

5. Expense Reimbursement. During the term of his employment under this Agreement, the Executive will be entitled to receive prompt reimbursement for all

reasonable expenses incurred by the Executive in performing his duties and responsibilities hereunder, including expenses with respect to the Executive's cellular phone, home fax machine, and dedicated telephone lines. All additional expense reimbursements hereunder will be in accordance with the policies, practices and procedures of the Company as applicable to employees generally and subject to review by the Audit Committee of the Board.

6. **Disability.** In the event of the Executive's Disability, the President and Chief Executive Officer may take such action as he deems appropriate and in the best interests of the Company, including but not limited to changing or eliminating the Executive's responsibilities, authorities, duties and/or positions hereunder. No such action taken in good faith will be deemed Good Reason or otherwise a breach of the Company's obligations under this Agreement, provided that, the Agreement and the Executive's compensation thereunder may not be terminated until such Disability has existed for at least one hundred eighty (180) consecutive calendar days, or at least two hundred forty (240) calendar days during any period of twenty four (24) calendar months in accordance with Section 7(b) of this Agreement, and provided further that, any Base Salary due the Executive during any period of Disability may be reduced by the amount of disability payments to which the Executive may be entitled as a result of such Disability, pursuant to any Company disability plan.

7. **Termination.** The Company may, at its election and upon written notice to the Executive, terminate the Executive's employment for any reason or no reason, with or without Cause. (All payments made to or in respect of the Executive pursuant to this Section 7 shall be made in a cash lump sum at the time of termination except where this Agreement or the plan pursuant to which such payment is to be made provides otherwise. Where this Agreement or plan provides for payment other than by cash lump sum, the Company shall have the option, in its sole discretion, to make payment in whole or in part by cash lump sum, including converting any benefits due to be provided over a period of time into a cash lump sum equal to the present value computed at the short-term applicable federal rate under § 1274 of the Internal Revenue Code of the cost of providing such benefit(s) to the Executive over a period of time.) In the event the Executive's employment is terminated under Sections 7(b), 7(d), or 7(e) of this Agreement, the Company shall provide Executive with outplacement services consistent with those provided executives under the Company's Severance Plan. Such outplacement services shall include, but shall not necessarily be limited to, office space, secretarial support, and one-on-one counseling. The Company shall provide references for the Executive in accordance with and consistent with the Company policy on references.

a. **Death.** If, during the term of his employment under this Agreement, the Executive's employment is terminated due to death, the Executive's estate will be entitled to receive:

(i) his Base Salary payable to his estate [or if so directed in writing by the Executive, to his spouse] in substantially equal bi-weekly

installments and all other compensation and benefits due him through the date of such termination of employment and continuing for a period of six (6) months from the date of termination of employment and ending six (6) months following the date of death;

(ii) awards (which may be prorated) under the Company's annual incentive plan and long-term incentive plan in accordance with the terms and conditions thereof;

(iii) any amounts or reimbursements due to the Executive in accordance with Sections 4(d) and (e), and 5 as of the date of such termination of employment;

(iv) any deferred Base Salary and/or incentive awards including, without limitation, interest or other credits on any such deferred amounts; and

(v) any other compensation or benefits that may be due or provided in respect of the Executive, in such circumstances, in accordance with the terms and conditions of any applicable employee benefit plans of the Company.

b. **Disability.** If, during the term of his employment under this Agreement, the Executive's employment is terminated due to, and after a period of, Disability for the period set forth in Section 6, the Executive will be entitled to receive:

(i) his Base Salary (less any disability payments in lieu of salary under the Company's disability plans as then in effect to which the Executive is entitled (his "Adjusted Base Salary")) and all other compensation and benefits due him through the date of such termination of employment;

(ii) awards (which may be prorated) under the Company's annual incentive plan and long-term incentive plan in accordance with the terms and conditions thereof;

(iii) any amounts or reimbursements due to the Executive in accordance with Sections 4(d) and (e) and 5 as of the date of such termination of employment;

(iv) any deferred Base Salary and/or incentive awards including, without limitation, interest or other credits on any such deferred amounts; and

(v) any other compensation or benefits (including health benefits) that may be due or provided to the Executive, in such circumstances, in

accordance with the terms and conditions of any applicable employee benefit plans of the Company.

c. **For Cause or Other than for Good Reason.** If, during the term of his employment under this Agreement, the Executive's employment is terminated either by the Company for Cause or by the Executive other than for Good Reason, the Executive will be entitled to receive:

(i) his Base Salary through the date of such termination of employment;

(ii) any amounts or reimbursements due to the Executive in accordance with Sections 4(d) and (e) and 5 as of the date of such termination of employment;

(iii) any deferred Base Salary and/or incentive awards including, without limitation, interest or other credits on any such deferred amounts; and

(iv) any other compensation or benefits that may be due or provided to the Executive, in such circumstances, in accordance with the terms and conditions of any applicable employee benefit plans of the Company.

The Executive will be given written notice that the Company intends to terminate the Executive's employment for Cause. Such written notice will specify the act or acts, or failure to act, which is/are the basis for such decision. The Executive, together with his legal counsel, shall be given the opportunity within fifteen (15) calendar days of the receipt of such notice to meet with the President and Chief Executive Officer or his designee to defend such act(s) or failure to act and, if such act(s) or failure to act is correctable, the Executive shall be given thirty (30) calendar days after such meeting to correct such act(s) or failure to act. If such act(s) or failure to act is not correctable or upon failure of the Executive, within such latter thirty (30) day period, to correct such act(s) or failure to act, the Executive's employment by the Company will automatically be terminated for Cause as of any subsequent date determined by the Company and communicated to the Executive. Anything herein to the contrary notwithstanding, if, following a termination of the Executive's employment by the Company for Cause based upon the conviction of the Executive for a felony, such conviction is overturned on appeal, the Executive will be entitled to the payments and benefits that the Executive would have received as a result of a termination of the Executive's employment by the Company without Cause.

d. **Without Cause or for Good Reason (Not in Connection with a Change of Control).** If, during the term of his employment under this Agreement, the Executive's employment is terminated either by the Company without Cause (other than due to Disability) or by the Executive for Good Reason, and Section 7(e) is not

applicable, the Executive will be entitled to receive:

(i) his Base Salary (prior to any salary reduction therein constituting a Good Reason for termination as set forth in Section 9(f)(v)) through the date of such termination of employment;

(ii) such Base Salary, payable in substantially equal bi-weekly installments, during the period commencing on the day after such termination of employment and ending on the second (2nd) anniversary of such termination (the "Continuation Period") (it being understood that the payment of such Base Salary for one (1) of the two (2) years is in additional consideration of the Executive's performance of the covenants set forth in Section 8(b) of this Agreement);

(iii) provided the date of such termination of employment does not occur within the first three (3) months of the year, an amount under the Company's annual incentive plan in respect of the year of termination equal to the Executive's target award thereunder (prior to any salary reduction therein constituting a Good Reason for termination as set forth in Section 9(f)(v));

(iv) provided the Executive is otherwise eligible under the terms of the Company's long term incentive plan, an amount under the Company's long-term incentive plan in respect of any performance period then in progress for at least twelve (12) months determined by multiplying the amount the Executive would have received had his employment not terminated, by a fraction, the numerator of which is the number of months in the period commencing with the first month in such performance period through the month in which employment terminated and the denominator of which is the number of months in such performance period;

(v) through the end of the first (1st) year of the Continuation Period, the Company will cause the Executive to be provided with benefits on the same terms and conditions as, those provided pursuant to the following sections of this Agreement: 4(c) (limited to medical, prescription drug, vision and dental insurance), 4(e)(i), and 4(e)(ii) (limited to dues and other costs of membership in professional and/or business associations and societies), including an additional amount such that after payment by the Executive of all applicable local, state and federal income and payroll taxes imposed on him with respect to such additional amount, the Executive retains an amount equal to all applicable local, state and federal income and payroll taxes imposed upon him with respect to such benefits;

(vi) a benefit under the Company's supplemental retirement plan (with no reduction thereto based upon the Executive's age), which benefit shall commence at or after Executive obtains age 55, as elected by the Executive. For the purposes of this Section 7(d)(vi), the Executive shall be credited with executive service from January 1, 1988, subject to verification of such service by any applicable former employer(s).

(vii) any amounts or reimbursements due to the Executive in accordance with Sections 4(d) and (e) and 5 as of the date of such termination of employment;

(viii) any deferred Base Salary and/or incentive awards including, without limitation, interest or other credits on any such deferred amounts; and

(ix) any other compensation or benefits that may be due or provided to the Executive, in such circumstances, in accordance with the terms and conditions of any applicable employee benefit plans of the Company (prior to any salary reduction therein constituting a termination for Good Reason as set forth in Section 9(f)(v)).

e. **Without Cause or for Good Reason (in Connection with a Change of Control).** If during the term of his employment under this Agreement and within twelve (12) months before or twenty-four (24) months following a Change of Control, the Executive's employment is terminated either by the Company without Cause (other than due to Disability) or by the Executive for Good Reason, the Executive will be entitled to receive:

(i) his Base Salary (prior to any salary reduction therein constituting a Good Reason for termination as set forth in Section 9(f)(v)) through the date of such termination of employment;

(ii) a cash lump sum amount equal to (x) two (2) times such Base Salary (it being understood that the payment of one (1) times such Base Salary is in additional consideration of the Executive's performance of the covenants set forth in Section 8(b) of this Agreement) and (y) two (2) times the Executive's target award under the Company's annual incentive plan (prior to any salary reduction therein constituting a Good Reason for termination as set forth in Section 9(f)(v));

(iii) provided the date of such termination of employment does not occur within the first three (3) months of the year, an amount under the Company's annual incentive plan in respect of the year of termination equal to the Executive's target award thereunder (prior to

any salary reduction therein constituting a Good Reason for termination as set forth in Section 9(f)(v)) multiplied by a fraction, the numerator of which is the number of months in the period commencing with the first month of the year through the month in which employment terminated and the denominator of which is twelve (12);

(iv) provided the Executive is otherwise eligible under the terms of the Company's long-term incentive plan, a payout consistent with the terms, conditions and definitions of Change of Control set forth in the Long Term Incentive Plan;

(v) for the one (1) year period commencing on the day after such termination of his employment, the Company shall cause the Executive to be provided, on the same terms and conditions as provided immediately prior to the Change of Control (and prior to any salary reduction therein constituting a Good Reason for termination as set forth in Section 9(f)(v)), benefits pursuant to the following sections of this Agreement: 4(c) (limited to medical, prescription drug, vision and dental insurance), 4(e)(i), and 4(e)(ii) (limited to dues and other costs of membership in professional and/or business associations and societies), including an additional amount such that after payment by the Executive of all applicable local, state and federal income and payroll taxes imposed on him with respect to such additional amount, the Executive retains an amount equal to all applicable local, state and federal income and payroll taxes imposed upon him with respect to such benefits;

(vi) an immediate benefit under the Company's supplemental retirement plan (with no reduction thereto based upon the Executive's age) payable in an actuarially equivalent lump sum, with actuarial equivalence being determined on a no-less favorable basis to the Executive than as provided by Section 417(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). For the purposes of this Section 7(e)(vi), the Executive shall be credited with executive service from January 1, 1988, subject to verification of such service by any applicable former employer(s).

(vii) any amounts or reimbursements due to the Executive in accordance with Sections 4(d) and (e) and 5 as of the date of such termination of employment;

(viii) any deferred Base Salary and/or incentive awards including, without limitation, interest or other credits on any such deferred amounts; and

(ix) any other compensation or benefits that may be due or provided to the Executive, in such circumstances, in accordance with the terms and conditions of any applicable employee benefit plans of the Company (prior to any salary reduction therein constituting a termination for Good Reason as set forth in Section 9(f)(v)).

Continuing employment with the Company or the acceptance of a new position with the Company or with the most senior resulting entity, other than as Executive Vice President, General Counsel & Corporate Secretary of the most senior resulting entity, after a Change of Control, merger, acquisition or other similar affiliation with another entity will not be deemed to be a waiver of Executive's right to terminate his employment for Good Reason under this Section 7(e) of the Agreement.

f. **Release.** In consideration of the payment or provision by the Company of the payments and benefits described in Section 7 of this Agreement, and as a condition to the Company's obligation to pay or to provide same, the Executive shall execute a release in a form reasonably acceptable to the Company and to the Executive and to the benefit of the Company, its subsidiaries, and their respective, officers, directors, employees, agents, successors and assigns, from any and all actions, claims, causes of action or complaints that he or anyone claiming through him then or thereafter may have for any event that is related to his employment with the Company, the terms and conditions of such employment or the termination of such employment. Such actions, claims, causes of action or complaints shall include, without limitation, any allegation of discrimination in employment on the basis of age, sex, race, color, national origin, ancestry, religion, or physical or mental disability or any other protected classification under, as the case may be, any federal, state or municipal statute or regulation now or hereafter in effect; any breach of contract, impairment of economic opportunity, negligent or intentional infliction of emotional distress, misrepresentation, defamation, interference with contractual or advantageous relationships, or breach of any covenant of good faith and fair dealing; and any other action in contract, tort or otherwise, or under any federal, state or municipal statute or regulation relating to the Executive's employment with the Company, the terms and conditions of such employment or the termination thereof. Notwithstanding the foregoing, such release shall not extend to nor shall it include any action, claim, cause of action or complaint that the Executive may have against the Company for any breach or violation of the terms of this Agreement, or any other right or claim, that arises, in either event, after the date on which such release is executed.

8. **Certain Restrictions.**

a. **Confidentiality.** The Executive acknowledges that he has acquired and will acquire confidential information reflecting the business of the Company, its subsidiaries and affiliates, including, but not limited to, business plans, financial information, acquisition prospects, customer and supplier lists (as such terms may relate to the businesses and other trade secrets or know-how of the Company,

including a subsidiary of the Company) as they may exist from time to time (collectively, "Confidential Information"), which are valuable, special and unique assets of the Company's business, access to knowledge of which is essential to the performance of the Executive's duties hereunder. Accordingly, the Executive will not disclose, at any time (during his employment under this Agreement or thereafter), such Confidential Information, other than in connection with the performance of his duties under this Agreement or if required to disclose Confidential Information pursuant to law, subpoena, court order, or requirements of Executive's counsel, provided that after the term of his employment, these restrictions will not apply to such Confidential Information which is then in the public domain (provided that the Executive was not responsible, directly or indirectly, for such Confidential Information entering the public domain without the Company's consent).

b. Competitive Activity.

(i) The Executive will not, during the term of his employment and, if his employment is terminated: x) by the Company other than for Cause; or y) by the Executive, whether or not for Good Reason, for a period of two years thereafter, without prior consent of the President and Chief Executive Officer, engage or participate in any of the following activities within the States (including the District of Columbia) in which the Company does business:

(a) directly or indirectly, knowingly engage or be interested in (as owner, partner, shareholder, employee, director, officer, agent, consultant or otherwise), with or without compensation, any business which is in competition with the business conducted by the Company, any successor to the Company's business, or any of their subsidiaries; except that the Executive will be entitled to own up to a five percent (5%) interest in a publicly traded corporation notwithstanding the above; or

(b) employ or retain (or participate in or arrange the employment or retention of) any person who was as of the Termination of this Agreement employed or retained by the Company, any successor to the Company's business or any of their subsidiaries. For such Agreement Period, the Executive will also not interfere with, disrupt or attempt to disrupt, the relationship, contractual or otherwise, between the Company or its subsidiaries and any customer, supplier, lessor or lessee of the Company.

(ii) Notwithstanding the above, the Executive will not be precluded from accepting employment with a health care organization so long as any competition between the health care organization and the Company and their subsidiaries is insignificant.

(iii) The consideration for the foregoing covenant not to compete, the sufficiency of which is hereby acknowledged, is the Company's agreement to employ the Executive and provide compensation and benefits pursuant to this Agreement, including but not limited to Section 7(d)(ii) or 7(e)(ii)(x), as applicable, during or with respect to the two-year non-compete period set forth in Section 8(b)(i), the full and timely payment of which compensation and benefits by the Company is an express and continuing condition precedent to the Executive's obligations under this subsection.

c. **Remedy for Breach and Modification.** The Executive acknowledges that the provisions of this Section 8 are reasonable and necessary for the protection of the Company and that the Company will be irrevocably damaged if these provisions are not specifically enforced. Accordingly, the Executive agrees that, in addition to any other relief or remedies available to the Company, including but not limited to recoupment of all consideration made for this Section 8, costs and reasonable attorneys' fees, the Company will be entitled to seek and obtain an appropriate injunction or other equitable remedy for the purposes of restraining the Executive from any actual or threatened breach of or otherwise enforcing these provisions and no bond or security will be required in connection therewith. If any restriction set forth in Section 8 is held by a court of competent jurisdiction to be unenforceable with respect to one or more geographic areas, lines of business and/or months of duration, then Executive agrees, and hereby submits, to the reduction and limitation of such restriction to the minimal extent necessary so that the provisions of Section 8 shall be enforceable. If any other provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future law, such provision shall be fully severable, and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision were never a part hereof; and the remaining provisions shall remain in full force and shall not be affected by the illegal, invalid, or unenforceable provision, or by its severance.

9. Certain Definitions.

In addition to those terms defined elsewhere in this Agreement, the following terms have the meaning set forth below:

- a. **Board of Directors** means the Board of Directors of CareFirst, Inc.
- b. **Boards of Directors** means the Boards of Directors of:
 - (i) CareFirst, Inc.;
 - (ii) CareFirst of Maryland, Inc.; and
 - (iii) Group Hospitalization and Medical Services, Inc.
- c. **Cause** means one or more of the following:

(i) The Executive's conviction of, or plea of guilty or nolo contendere to, any felony or crime involving moral turpitude;

(ii) Embezzlement or criminal diversion of funds by the Executive; or

(iii) The failure (other than due to Disability) of the Executive to perform or to comply with any material term or condition of this Agreement, provided the Executive fails to cure a failure within the time specified in Section 7(c) of the Agreement.

d. **Change of Control means:**

(i) a merger, acquisition, consolidation or other transaction involving the Company after which the individuals who constituted members of the Board of Directors twelve (12) months before the consummation of such transaction do not constitute a majority of the Board of Directors or other similar governing body of the most senior resulting business entity after such transaction; or

(ii) a sale, lease or exchange of more than 50% of the assets of the Company, or more than 50% of the stock or other equity interests in the Company, to one or more organizations or entities not more than 50% owned by the Company or the Affiliated Companies after the consummation of such transaction.

In addition, a Change in Control shall be deemed to have occurred if, during any period of twenty four (24) consecutive months, individuals who at the beginning of such period constituted the Board cease for any reason to constitute at least a majority thereof unless the election of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the twenty-four-month period.

Notwithstanding the foregoing, a Change Of Control shall in no event be deemed to have occurred if the Company is placed in receivership or under control of the Commissioner of Insurance with jurisdiction over the Company, and Executive shall not receive any severance pay under Section 7 of this Employment Agreement if any local, state, or federal regulator assumes control of the Company.

e. **Disability** means a physical or mental infirmity of the Executive, which causes him to be substantially unable, despite reasonable accommodations by the Company, to perform his duties hereunder as determined by the Company in good faith.

f. **Good Reason** means:

- (i) the Company's failure to extend the term of this Employment Agreement as described above in Section 2(b);
- (ii) a material reduction in Executive's responsibilities, duties, authority, or title;
- (iii) if there is a Change of Control, merger, acquisition or other similar affiliation with another entity and Executive does not continue as the of Executive Vice President, General Counsel & Corporate Secretary of the most senior resulting entity (i.e., holding company);
- (iv) the transfer of Executive to a location that results in a commuting distance for Executive that is more than fifty (50) miles greater than Executive's commute as of the date of this Employment Agreement;
- (v) a reduction in Executive's salary or a material diminution in the benefits afforded the Executive as of the date of this Agreement;
- (vi) a material decrease in the amounts that may be earned by the Executive under, or a material increase in the standards applicable to the Executive for earning amounts under, the Company's annual and long-term incentive plans as of the date of this Agreement, in each case without the Executive's written approval;
- (vii) the Company's breach of any material term of this Employment Agreement, including, but not limited to, the Company's failure, after due demand, to provide or pay Executive any of the compensation or benefits due under this Employment Agreement; or
- (viii) the failure of the Company to obtain an agreement from any successor to assume and agree to perform this Agreement.

If Executive provides a notice of termination in connection with an event described in clauses (i) through (viii) of this Section 9(f), to the Company, the Company will have thirty (30) calendar days from the date of receipt of such notice to effect a cure of the event described therein, and upon cure thereof by the Company to Executive's reasonable satisfaction, such event will no longer constitute Good Reason for purposes of this Agreement.

10. **Excise Tax.** Notwithstanding any provision of this Agreement, if the receipt by the Executive of any amount for compensation or benefits payable under this Agreement or any other plan, program, agreement, or arrangement of the Company relating to the Executive causes the imposition of a tax on the Executive under section 4999(a) of the Internal Revenue Code, or any successor provision (an "Excise Tax"), the Company shall pay to the Executive in cash such additional amount as is necessary

so that the total amount received by the Executive under this Agreement and any such other plan, program, agreement, or arrangement and retained by him after payment of any taxes on such total amount (including, without limitation, any federal, state, or local income taxes and any taxes imposed by such section 4999(a) and including, without limitation, any taxes in respect of any amount paid under this section 10) shall not be less than the net after-tax amount he would have received had such Excise Tax not been imposed. The Company shall pay such additional amount to the Executive within thirty (30) days after the day on which the Executive notifies the Company that, and only to the extent that, (a) the Company has withheld from him an amount in respect of such Excise Taxes, (b) the Executive has made a payment of estimated tax in respect of Excise Taxes, (c) the Executive has filed an income tax return for the year for which any Excise Taxes are due, showing such Excise Taxes as being due, or (d) an Excise Tax liability has been asserted by a taxing authority; *provided*, however, that the Executive shall, at the Company's written request and at its sole cost and expense, take such steps as may reasonably be required by the Company to contest any such assertion of liability if the amount of Excise Taxes to be contested is at least \$50,000.

11. Miscellaneous.

a. **Nonwaiver.** Except to the extent waived in a writing signed by the waiving party, the failure of any party to insist upon strict adherence to any term of this Agreement on any occasion will not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

b. **Assignment.** Except as otherwise provided in this Section 11(b) and subject to Section 11(i)(iv) below, this Agreement will inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement will not be assignable by the Executive, and will be assignable by the Company without the consent of the Executive to any company, subsidiary or other entity resulting from the reorganization, merger or consolidation of the Company with any other company or entity, or any company or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other company or entity in connection with any such reorganization, merger, consolidation, sale, exchange or transfer (but no such acceptance of an assignment shall have any effect on whether such transaction constitutes a "Change of Control" as defined in Section 9).

c. **Notices.** All notices and other communications hereunder will be in writing and will be given by hand-delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

John A. Picciotto
10455 Mill Run Circle
Owings Mills, MD 21117

If to the Company:

Sr. Vice President, Human Resources
CareFirst of Maryland, Inc.
10455 Mill Run Circle
Owings Mills, Maryland 21117

or to such other address as either party will have furnished to the other in accordance herewith. Notices and communications will be effective when actually received by the addressee.

d. **Withholding.** The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as will be required to be withheld pursuant to any applicable law or regulation.

e. **Severability.** The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement.

f. **Company Policies, Plans and Programs.** Except as otherwise provided in this Agreement, whenever any rights under this Agreement depend on the terms of a policy, plan or program established or maintained by the Company, any determination of these rights will be made on the basis of the policy, plan or program in effect at the time as of which determination is made. Except as otherwise provided in this Agreement, no reference in this Agreement to any policy, plan or program established or maintained by the Company shall preclude the Company from prospectively or retroactively changing or amending or terminating that policy, plan or program or adopting a new policy, plan or program in lieu of the then-existing policy, plan or program.

g. **Survival.** The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement or the Executive's employment hereunder to the extent necessary to the intended preservation of such rights and obligations.

h. **Resolutions of Disputes.**

(i) If a dispute arises regarding a termination of Executive's employment or the validity, interpretation or enforcement of this

Employment Agreement or the right of Executive to receive or retain any benefit or payment contemplated hereby, the Executive shall be responsible for all legal fees and expenses incurred by Executive in contesting or disputing any such termination or seeking to obtain, enforce or retain any right, benefit or payment provided for in this Employment Agreement or in otherwise pursuing or settling any claim hereunder will be paid by the Company. However, if Executive prevails in any formal proceeding brought by Executive against the Company to enforce a provision of this Employment Agreement, the Company shall be responsible for the reasonable legal fees and expenses incurred by him in connection with such formal proceeding.

(ii) The Company agrees to pay interest on any payments to be made to Executive under this Agreement not paid within thirty (30) days after the date when due and on any money judgment awarded to Executive following a proceeding, to enforce any portion of this Employment Agreement, calculated at the prime interest rate publicly announced by Citibank, N.A. at its principal office from time to time as being its prime rate (with any changes in such prime rate being effective as of the opening of business on the date such change is announced), from the date that payments should have been made under this Employment Agreement to the time of actual payment.

i. Miscellaneous.

(i) This Agreement may be executed simultaneously in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(ii) This Agreement represents the entire understanding of the parties hereto, supersedes any and all other and prior agreements between the parties. The terms and provisions of this Agreement may not be modified or amended, except by means of a written amendment executed by both parties.

(iii) This headings in this Agreement are for convenience or reference only and shall not be considered as part of this Agreement nor limit or otherwise affect the meaning hereof.

(iv) This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the

Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

(v) This Agreement shall be construed and enforced in accordance with the laws of the State of Maryland without reference to the principles of conflicts of law.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal on the date first above written.

WITNESS/ATTEST:

Sharon J. Picciotto

CAREFIRST, INC.

By: [Signature] (SEAL)
William L. Jews 8-31-99
President and Chief
Executive Officer

Sharon J. Picciotto

CAREFIRST OF MARYLAND, INC.

By: [Signature] (SEAL)
William L. Jews 8-31-99
President and Chief
Executive Officer

Sharon J. Picciotto

GROUP HOSPITALIZATION
AND MEDICAL SERVICES, INC.

By: [Signature] (SEAL)
William L. Jews 8-31-99
President and Chief Executive
Officer

Laurie J. Mayo

Agreements/picciotto employment agreement/7-8-99

[Signature] (SEAL)
John A. Picciotto

